

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 IO-14 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20

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FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC PRIORITY 2080

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E.O. 11652: N/A

TAGS: EFIN, BL

SUBJ: IMF MISSION.

1. ACCORDING TO IMF REP, IMF MISSION WHICH SCHEDULED TO COME TO LA PAZ FEBRUARY 4 NOW IN DOUBT. MAIN BASIS FOR DOUBT, HE SAID, IS THAT PROSPECTIVE 1974 BUDGET DEFICIT NOW LARGER THAN LIKELY TO BE ACCEPTED BY IMF AND THAT IMF WOULD NOT WISH ENDORSE USE OF PROSPECTIVE YPFB PROFITS TO COVER CENTRAL GOVERNMENT DEFICIT. IMF/WASHINGTON APPARENTLY IS NOW TRYING TO EXTRACT MAXIMUM MOVEMENT OGB TO CLOSING PROSPECTIVE FISCAL DEFICIT BEFORE AGREEING TO SEND MISSION TO LA PAZ AND MINFIN IS RECONSIDERING WHETHER HE REALLY WANTS MISSION IF PORSPECTS NOT GOOD FOR REACHING STAND-BY AGREEMENT.

2. WHILE WE ARE NOT TAKING A POSITION ONE WAY OR THE OTHER WITH THE GOB, WE HAVE CONSULTED WITHIN OUR MISSION ABOUT THE ADVISABILITY OF A FUND MISSION AT THE PRESENT TIME. WE SEE PROS AND CONS ON MISSION COMING AS SCHEDULED AS DOES IMF REP. PROS INCLUDE POTENTIAL USEFULNESS OF MISSION AT TIME WHEN GOB POLICIES FOR PRESENT YEAR BEING DEBATED, UTILITY TO GOB OF IMF ENDORSEMENT LONGER TERM PROSPECTS

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AND POLICIES, AND POTENTIAL DAMAGE TO BUSINESS CONFIDENCE

AND POSSIBLE DELAY OF CIAP MEETING AND COORDINATION
OF FURTHER ASSISTANCE IF IMF DOES NOT COME AS SCHEDULED.
MAJOR CONS INCLUDE POSSIBLE ADVERSE PUBLIC REACTION TO IMF
MISSION WHICH MAY BE CHARGED WITH CONTRIBUTING OR ADDING
TO RECENT UNPOPULAR PRICE INCREASES AND POSSIBLE FAILURE
REACH AGREEMENT ON STAND-BY AT THIS TIME. ON BALANCE,
WE FAVOR MISSION'S ARRIVAL AS SCHEDULED BASICALLY BECAUSE IT
WOULD PROVIDE BEST MECHANISM FOR MACRO-ECONOMIC DIALOGUE
WITH THE GOB AT THIS CRITICAL TIME.

3. WE LOOK FORWARD TO CONSULTING WITH IMF MISSION BUT PROPOSE
ARA/LA HAVE INFORMAL DISCUSSION WITH FUND WHETHER MISSION
COMES OR NOT. WE SUGGEST YOU MIGHT WISH TO EXPLORE FOLLOWING:
A) FUND'S VIEWS ON FISCAL PROSPECTS AND POLICY MIX TO DEAL
WITH INFLATIONARY PRESSURES ARISING FROM RISING WORLD PRICES;
B) FUND'S ANALYSIS OF LARGE INCREASES BY GOB IN FOOD PRICES
AND WAGE LEVELS; C) MINFIN DESIRE CREATE TRUE INVESTMENT
BUDGET FOR PUBLIC SECTOR; AND D) FISCAL IMPLICATIONS OF
1974 PUBLIC AND PRIVATE INVESTMENTS WHICH TOGETHER WE
BELIEVE WOULD HAVE TO EXCEED 15 PERCENT OF GDP TO ASSURE
CONTINUATION OF CURRENT GROWTH RATES.

4. FYI. WE HAVE VIEW SIMILAR TO THAT OF IMF REP THAT WOULD
BE UNDESIRABLE FOR GOB SOLVE PROSPECTIVE UNFINANCED FISCAL
DEFICIT, WHICH IMF REP PUT AT \$B 600 MILLION, ONLY FROM
YPFB GAINS, UNLESS SUCH FINANCING STRICTLY LIMITED TO TRUE
INVESTMENT EXPENDITURES. WE DID NOT HAVE CAREFUL AND
DETAILED DISCUSSION WITH IMF REP ON THIS ESTIMATE. WE SEE
EXTREMELY WIDE RANGE OF POSSIBILITIES FOR FISCAL PERFORMANCE
IN 1974 DUE TO GREAT VARIABILITY OF NUMBER OF FACTORS WHICH
COULD PRODUCE ANYTHING FROM ABOUT \$B 600 MILLION SURPLUS, IF FULL
COMIBOL TAX PAYMENTS MADE, TO \$B 600 MILLION UNFINANCED
DEFICIT. THUS WE BELIEVE USG SHOULD NOT TAKE ANY POSITION
AT THIS TIME WITH GOB ON SPECIFIC WAY TO CLOSE PROSPECTIVE
1974 DEFICIT, BUT RATHER WORK OUT POSITION MANILY WITH OTHER
AGENCIES IN COURSE PREPARATION FOR CIAP MEETING. WE SHOULD
PLAN PROVIDE OUR RECOMMENDATIONS IN THAT CONTEXT. WE ALSO
AGREE WITH IMF REP THAT BEST POSSIBILITIES FOR INCREASES
ON REVENUE SIDE ARE THROUGH BETTER TAX ADMINISTRATION,
INSTITUTION AGRICULTURE LAND TAX AND ENFORCEMENT EXISTING
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LEVEL EXPORT TAXES. SUCH ACTIONS IF INSTITUTED PROMPTLY
COULD GENERATE SIGNIFICANT ADDITIONAL REVENUE IN 1974
AND FUTURE YEARS. WE BELIEVE WE CAN PROPERLY FOLLOW-UP
ON TAX ADMINISTRATION AND ARE DOING SO, SINCE THIS IS AREA
IN WHICH WE ARE FURNISHING TECHNICAL ASSISTANCE. WE LEANING
TOWARDS CONCLUSION THAT MINERAL REGALIA TAX ON TIN SHOULD BE
REVISED TO REDUCE IMPACT AS CIF PRICE MOVES UP, BUT THIS AS
WELL AS INSTITUTION NEW TAXES AND ENDORSEMENT EXPORT TAXES

IS MATTER BEST LEFT TO IMF OR COLLECTIVELY TO CIAP TO RAISE
WITH GOB.

4. RECOMMEND ARA/LA REPRESENTATIVES DISCUSS SITUATION WITH
IMF, BUT ON BAIS OF SOLICITING FUNFS'S CURRENT POSITION ON
THESE TOPICS. SINCE OUR POSITIONS ARE NOT FIXED BECAUSE
OF FLUID SITUATION HERE AND CHANCES OF VARIATIONS AND WORLD
MARKETS, WE ARE NOT ADVANCING ANY POLICY SUGGESTIONS FOR
DISCUSSION WITH IMF. WE WISH TO BE INFORMED OF FUND'S
VIEWS SO THAT WE MIGHT KNOW WHETHER THEIR INFORMATION
SUFFICIENTLY CURRENT AND POSITION APPROPRIATELY TAKES
ACCOUNT OF LOCAL REALITIES. WE COULD FURNISH MORE OF OUR
IMPRESSIONS THESE REALITIES, IF NECESSARY, TO ASSIST
IMF BEFORE IT SENT MISSION OR ADOPTED FIXED POSITIONS.

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